BUSINESS CYCLE DEVELOPMENTS

There are five of eight **Business Cycle <u>Peak</u> Indicators** signaling and when output peaks the 10 year T-Note yields typically peak an average of two months (+/- 4 mo.) <u>after</u> a peak in output – see the table below. Note the coincidence of these two data points appearing together, but also the sometimes sizeable decline in T-Note yields – see column #1. Another one or two of the eight **BC<u>P</u>I's** is expected to deliver a drop in yields – to a temporary higher low. This would be a decline in yields in sympathy with the decline in output.

The average peak in the 10 yr T-Note yield lags the peak in output by two months; however, that average is skewed by one fat-tailed observation in early 1980 – discard that and they're coincident.

THE 10 YEAR T-NOTE RESPONS TO A PEAK IN OUTPUT

T-NOTE DATA IN COLUMN ONE ARE *MONTHLY AVERAGES* & BP's ARE *DAILY CLOSE DATA*

10 Yr T-Note Cyclical Peak (Decline in basis points for the slowing (sd) or recession (r), or both (*daily close data*).)	Output Peak	Lead (+) or Lag (-) IRP to BCP
1/60 n/a	1/60 r	-0-
8/66 -166 bp	10/66 sd	+2 mo
5/70 -284 bp	10/69 r	-7 mo
8/74 -136 bp	11/73 r	-9 mo
Volcker appt. in 8/79 and... 3/80 -418 bp Congress failed with Credit Controls in 3/80...	12/78 sd/r but Volcker tightened for 18 more...	-15 mo months –explains this outlier.
9/81 -572 bp	5/81 r	-4 mo
6/84 -698 bp	6/84 sd	-0-
3/89 -176 bp	1/89 sd	-2 mo
9/90 -386 bp	9/90 r	-0-
11/94 -389 bp	1/95 sd	+2 mo
1/00 -257 bp	12/99 sd/r	-1 mo
3/02 -231 bp	6/02 sd	+3 mo
6/06 -75 bp	1/06 sd	-5 mo
6/07 -318 bp	7/07 sd/r	+1 mo
4/10 -160 bp	5/10 sd	+1 mo
3/12 -96 bp	2/12 sd	-1 mo
12/13 -136 bp	11/13 sd	-1 mo
6/15 -113 bp	11/14 sd/r[1]	-7 mo
10/18 -177 bp	7/18 sd	-3 mo
12/19 -141 bp	2/20 r	+2 mo
10/22 -95 bp	9/22 sd	-1 mo
10/23 -109 bp	9/23 sd	-1 mo
4/24 -107 bp	6/24 sd	+2 mo
	Avg.	-2 mo. (+/- 4 mo)
? ?	? ?	

1.) From 11/14 thru 3/16 the Index of Industrial Production fell -4.8%. Declines greater than -2.5% have been later identified as recession periods.

The 5th **BC<u>P</u>I** signaled in May '24 and the average lead-time to a peak in output – at the fifth **BC<u>P</u>I** – is four months (+/- 4 mo.). To date, that centers a peak in output in September 2024 (May '24 thru January '25). There's usually at least six to eight **BC<u>P</u>I's** signaling prior to a peak in output and the accompanying peak in T-Note yields. Another **BC<u>P</u>I** (i.e. the 6th) would re-center the expected target date for both output and yields.

If you believe the 65 year relationship above, then we should be seeing slower growth and a temporary rally in bonds soon. The surprise regarding T-Note yields since September's Fed Funds cut is starting to become the consensus and consensus views never seem to win.